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MEMORANDUM

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AZ CORP COMMISSION
DOCKET CONTROL

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TO: THE COMMISSION

FROM: Utilities Division

DATE: June 17, 2008

RE: TUCSON ELECTRIC POWER COMPANY'S – APPLICATION FOR APPROVAL OF ITS PROPOSED DEMAND-SIDE MANAGEMENT PORTFOLIO FOR 2008-2012 – EDUCATION AND OUTREACH PROGRAM (DOCKET NO. E-01933A-07-0401)

On July 2, 2007, Tucson Electric Power Company ("TEP" or "the Company") filed an application for approval of its proposed Demand-Side Management ("DSM") Program Portfolio. On November 14, 2007, TEP filed a revised Portfolio Plan, modifying the delivery mechanism and the measurement/evaluation plans for some programs.

The TEP DSM Portfolio consists of ten proposed programs, including the Education and Outreach ("EO") Program summarized below.

Program Description

Existing Programs. TEP's existing DSM portfolio includes separate residential and commercial programs designed to educate TEP customers on how to conserve energy and lower their energy bills through on-site and on-line energy audits. There is also a school program designed to create awareness of energy and environmental issues, and to support conservation over the long run.

Proposed Program. The proposed enhanced EO program would combine, and increase spending for, the existing Residential, Academic and Commercial Education programs. It would also eliminate on-site energy audits, increase general efficiency campaigns and include a Time-of-Use ("TOU") Education component designed to educate customers about the benefits of load shifting.[1] The proposed EO program would also be used to increase awareness of TEP's other DSM programs.

Goals. The EO program includes four distinct education strategies:

- Residential Education. The goal of residential education is to educate TEP's residential consumers on how to conserve energy and lower their electric utility bills utilizing the on-line Energy Advisor and an energy efficiency media campaign.

[1]The Company has indicated that it does not anticipate having the infrastructure in place for the Direct Load Control program until the end of 2008.

- Academic Education. The goals of the academic education component are to provide school children with an early understanding and appreciation for energy efficiency, and to encourage students to take the information home.

  The educational strategies include: (i) the Insulation Station, which provides training to 4th grade teachers and a kit containing ready-to-assemble model houses and supplies to conduct science and math activities on insulation and home energy efficiency (4th Grade); and (ii) the Energy Patrol, an Arizona Energy Office-sponsored program which involves students who monitor classrooms to ensure that lights, computers and water faucets are turned off when rooms are vacated (K-12th Grades). Depending on the willingness of teachers to schedule additional classroom time, the program may also include marketing the on-line Energy Advisor to teachers for energy efficiency and related science and math activities.

- Commercial Education. The goal of Commercial Education is to educate TEP's small commercial customers on how to conserve energy and lower their electric utility bills through the on-line Energy Advisor and an energy efficiency media campaign.

- Time-Of-Use ("TOU") Education. The goals of TOU education are to teach TEP's residential and commercial customers about the benefits of TOU rates and communicate strategies that enable customers to maximize savings through load shifting.

Eligibility. Eligibility varies according to program component: (i) The Residential Education component is designed for TEP's residential customers, both homeowners and apartment renters; (ii) the Academic Education component focuses on school children in TEP's service area; (iii) the Commercial Education component would target TEP's small commercial customers[2]; and (iv) the TOU Education component would be directed at TEP's commercial and residential customers.

Incentives. Incentives are not paid as a part of the EO program.

Delivery Strategy

The EO program would be administered in-house by TEP employees. TEP would provide program administration, marketing, planning, and consumer education activities.

[2]All TEP customers are eligible to participate in the EO program, but large commercial customers usually work with TEP Account Managers or Customer Care representatives specializing in commercial energy efficiency and high bill solutions.

Marketing

TEP proposes to market the EO program using the following means:

Residential and Commercial:

- **Bill messages** would be used to provide information to current customers;
- **Tep.com** would display information to help Web users quickly find energy savings information;
- **TEP customer care representatives** would be trained to answer customer questions;
- **Brochures** would be created to be mailed on demand, distributed through the call center and tep.com, and distributed at public events such as school training, presentations, and seminars;
- **Inserts** would be added to customer bills to educate them on ways to lower their electric bill costs;
- **Email newsletter** articles featuring energy savings tips would be sent to all registered tep.com users;
- **Metro traffic and other radio** advertising would be used to further communicate the value of the programs;
- **Media relations** would be prepared to answer questions posed by the media; and
- **Personal outreach** would be done at events such as fairs, exhibits, and science competitions, to distribute information about energy conservation and renewable energy.

Academic Education:

TEP contacts elementary and high school teachers by mail and/or telephone to schedule appearances. In addition, direct mail to all elementary schools outlines the programs offered and provides opportunities for teachers to order classroom sets of grade-appropriate energy conservation booklets and study guides for students.

Time-Of-Use Education:

TEP would notify current customers about TOU rates and provide ongoing information to both new and current TEP customers interested in signing up for TOU through avenues such as: (i) targeted mailings; (ii) bill messages; (iii) tep.com; (iv) TEP customer care representatives; (v)

brochures; (vi) inserts; (vii) email newsletter; (viii) metro and traffic radio, print and Internet; (ix) media relations; and (x) door tags.

It is Staff's position that ratepayer DSM dollars should not be used simply to market a specific rate. Staff recommends that any customer communications regarding TOU should be designed to educate customers regarding the benefits of shifting peak load to off-peak hours, and of reducing peak demand (kW). Such marketing and educational communications should include information on what customers can do to manage their own energy consumption to shift peak load or reduce peak demand.

Participation in Existing Education and Outreach Programs

Staff has concerns regarding participation rates for the Commercial on-line energy audit, as reported in the TEP Semi-Annual DSM filing for the period ending December 31, 2007. The Company reports a total of 474 commercial customers accessing its on-line Energy Advisor, with 111 customers completing the on-line energy audit during 2007.[3] Although completion rates are higher for the TEP commercial on-line audit, than for the UNS Electric commercial on-line audit, Staff believes that expenditures on this program component can not be justified without significant improvement in participation rates.

In response to inquiries from Staff, the Company stated that it has not determined the specific reason or reasons for low participation, but indicates that lack of awareness of the Energy Advisor, the time required to complete the survey, and a customer's lack of technical knowledge regarding a facility may all be contributing factors. TEP plans to increase awareness through bill messages, bill inserts, radio advertising, and participation at public events. In addition to increased advertising, the Company is investigating the possibility of using other software vendors in the future.

If the EO program is approved, Staff recommends that the Company perform research and analysis in order to determine the reason or reasons for low participation. Any software issues should be addressed within one year following approval, whether this would require new software or revisions of existing software. (For example, if the length of the survey is a disincentive to using the on-line energy audit, shorter individual audits on topics such as Lighting, Heating and Cooling and Commercial Cooking could be developed.) Participation should also be tracked to determine whether the proposed increase in marketing brings about higher participation.

If the EO program is approved, Staff recommends that the on-line audit component be approved only on an interim basis, and that the Company request approval to continue after one year. This filing should take place one year following implementation of an updated energy audit program, if the Company significantly revises the program, or one year following approval,

[3]During 2007 6,560 residential customers accessed the Residential on-line Energy Advisor, with 2,734 customers completing the on-line audit. Staff believes that, while these participation numbers should be improved, the Commercial on-line Energy Advisor has shown an unsatisfactory level of participation.

if the Company chooses to keep the existing program in place, and rely on more extensive marketing to improve participation rates.

Monitoring and Evaluation

In response to a Staff request, TEP developed a Measurement and Evaluation Plan for the Education and Outreach program. The Company is proposing to take the following steps for evaluating the different components of the EO program:

Residential and Commercial Energy Efficiency Campaign

- During monitoring and verification activities for incentive-based DSM programs, TEP would ask participants whether they were made aware of the program, or influenced to participate, by the energy efficiency campaign;

- Check boxes would be added to incentive applications to allow customers to indicate how they learned about the program in which they are participating; and

- TEP customers would be surveyed in order to determine what actions they have taken to improve their energy efficiency.

Residential and Commercial On-Line Audit Programs

- Statistics would be collected regarding visitors to the on-line audit site, including how far each customer proceeds with the audit and final recommendations page; and

- Customers participating in the on-line audit would be contacted after three to six months to determine whether the audit was helpful and what actions the customer took to improve energy efficiency as a result.

Academic Education

- Parents would be surveyed to determine whether their child's participation resulted in discussions about energy use, and about whether they were influenced to take or plan any actions to improve energy efficiency as a result of the EO program, or due to a TEP incentive-based program; and

- TEP would collect statistics concerning school, teacher and student participation and gather comments to improve program delivery.

Residential and Commercial TOU Education

- Customers would be surveyed to determine whether TOU education influenced them to change their behavior or adopt new technologies.

Program Budget

The proposed budget for the EO program is set out in the tables below. The overall budget for the EO program is based on the Company's estimate of the costs associated with putting together an effective year-round campaign and takes into account the historic cost of media buys. The Company has revised its proposed budget allocations to reflect a general TOU educational campaign without mandatory TOU.[4] Should TOU become mandatory, the Company has indicated that it would require additional funding.

TEP Education and Outreach Proposed Budget[5]	
Residential and Commercial Education *	$200,000
Residential and Commercial Education On-Line Audit (Software License)	$101,000
Academic Education	$70,000
Time-Of-Use Education	$100,000
Evaluation	$25,000
Total Residential & Commercial	$496,000[6]

*$75,000 is allocated to advertise the on-line audit to residential and small commercial customers.

	2008	2009**
Total Program Budget	$496,000	$496,000
Total Administrative and O&M Cost Allocation[7]	$55,000[8]	$45,000
Total Marketing Allocation[9]	$265,000	$275,000
Total Direct Implementation[10]	$151,000	$151,000
Total EM&V Cost Allocation[11]	$25,000	$25,000

**The Company proposes to increase the program budget by 3% in ensuing years, to compensate for inflation.

TEP has informed Staff that the Tucson Unified School District (TUSD) has passed a new energy policy that makes each principal responsible for energy reductions on his or her own campus, with an expectation of a 5 percent reduction in each of the next three years. The

[4]The first year allocation was revised downward, from $300,000 to $100,000, while the second and ensuing years were also revised downward, from $200,000 to $100,000.
[5]Summit Blue, consultant for TEP and UNS Electric, indicates that the proposed budget allocations for the TEP and UNS Electric DSM programs were based on a survey of budgets for 17 DSM programs, for different utilities, that began operation in California in 2005. These allocations have been revised to reflect changes in the TOU and Academic components.
[6]The TEP semi-annual report listed a total of $300,119 in spending during 2007 for the separate Commercial Education ($53,232), Residential Education ($220,422) and Academic Education ($26,465) programs.
[7]Includes labor for individuals working on program design, research, data collection, document preparation, copying, reporting and supervision.
[8]Higher cost reflects initial start-up costs.
[9]See Marketing section.
[10]Includes labor for individuals working on actual design and development of EO materials, training programs, and hardware and materials necessary to produce materials.
[11]See Monitoring and Evaluation section.

Company anticipates that this new policy will increase interest in the Academic Education component of its EO program. In response, TEP has revised its original allocation for Academic Education upward, from $50,000 to $70,000.

With the additional $20,000 in funding, the Company proposes to contract with the Environmental Education Exchange to take a team into schools with high energy bills for day-long presentations on energy and conservation. After these presentations, the Energy Patrol would move ahead with continuing education and reminders on conservation. TEP states that the Environment Education Exchange is geared to work with 4th through 8th graders, and that it has on ongoing relationship with local schools, arising from its water conservation and recycling programs.

Staff recommends that TEP be allowed to shift money between program components in order to address changes in participation levels.

Cost-Benefit Analysis and Projected kWh and Environmental Savings

The EO program consists of education and marketing intended to inform TEP customers about the benefits of energy conservation and to inform those customers on how to achieve energy savings. Because the aim of this program is to change behavior, it is difficult to objectively assess cost-effectiveness or measure actual energy or environmental savings. Staff's position is that while standard cost-effectiveness analysis may not be appropriate for market transformation or educational programs, such programs must still be evaluated to determine their effectiveness. As discussed in the Monitoring and Evaluation section, TEP has proposed to put into place evaluation measures, including surveys and the collection of participation statistics, in order to verify the program's effects.

Improving Customer Access to Cost Information

The three major opportunities for energy conservation involve improving equipment, enhancing the thermal envelope (with respect to buildings), and changing behavior. The OE program is intended to increase participation in the Company's other DSM programs, but is also intended to effect a broader market transformation, one that includes changes in customer behavior. To promote that end, Staff recommends that the Company work to improve its customers' access to more specific information regarding the costs of energy for particular end uses. A list of estimated monthly energy costs, by appliance, for TEP customers should be available on the TEP website (in addition to any cost calculator), and should be included in other program marketing, including bill stuffers.[12]

[12] As an example, the SRP site includes a chart, based on usage of 1,285 kWh per month, which estimates an energy cost of $19.84 for a 10-15 year old refrigerator, located outside, during summer months, while an in-house Energy Star refrigerator is estimated to cost $4.76 to run during the same period.

Staff also recommends that information should be made available on the website, and through other marketing and education, regarding how customers can reduce "phantom loads"[13], or power consumed by electronic appliances that are switched off or in standby mode.

Reporting Requirements

If approved, Staff recommends that the EO program be reported in the Company's semi-annual DSM reports. At a minimum, reporting should include the following information: (i) participation levels for each component of the EO program; (ii) the amount spent in each major budget category during the previous reporting period and, in the end-of-year report, the amount spent in each major budget category during the course of the calendar year; (iii) the results of the monitoring and evaluation process for each program component; (iv) any issues that concern the Company regarding the program, along with plans to address any problems; and (v) any major changes planned regarding the program, including termination of the program itself or a component of the program.

Staff recommends that the TEP EO program be approved, with the modifications included herein.

Summary of Staff Recommendations

- Staff recommends that the Company perform research and analysis in order to determine the reason or reasons for low participation with respect to its commercial on-line Energy Advisor.

- Staff recommends that any customer communications regarding TOU should be designed to educate customers regarding the benefits of shifting peak load to off-peak hours, and of reducing peak demand (kW). Such marketing and educational communications should include information on what customers can do to manage their own energy consumption to shift peak load or reduce peak demand.

- If the EO program is approved, Staff recommends that the on-line audit component be approved only on an interim basis and that the Company request approval to continue one year following implementation of an updated energy audit program, if the Company significantly revises the program, or one year following approval, if the Company chooses to keep the existing program in place.

- Staff recommends that TEP be allowed to shift money between program components in order to address changes in participation levels.

[13]Also referred to as "parasitic" or "vampire" loads, these loads waste energy and can amount to approximately 5% of a home's energy load.

- Staff recommends that the Company work to improve its customers' access to more specific information regarding the costs of energy for particular end uses, including a list of estimated monthly energy costs, by appliance, both on the TEP website and as bill stuffers.

- Staff also recommends that information should be made available on the website, and through other marketing and education, regarding how customers can reduce "phantom loads", or power consumed by electronic appliances that are switched off or in standby mode.

- If approved, Staff recommends that the EO program be reported in the Company's semi-annual DSM reports. At a minimum, reporting should include the following information: (i) participation levels for each component of the EO program; (ii) the amount spent in each major budget category during the previous reporting period and, in the end-of-year report, the amount spent in each major budget category during the course of the calendar year; (iii) the results of the monitoring and evaluation process for each program component; (iv) any issues that concern the Company regarding the program, along with plans to address any problems; and (v) any major changes planned regarding the program, including termination of the program itself or a component of the program.

- Staff recommends that the TEP EO program be approved, with the modifications included herein.

for Ernest G. Johnson
Director
Utilities Division

EGJ:JKM:lhm\JFW

ORIGINATOR: Julie McNeely-Kirwan

BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTEN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY'S REQUEST FOR APPROVAL OF ITS EDUCATION AND OUTREACH DEMAND-SIDE MANAGEMENT PROGRAM	DOCKET NO. E-01933A-07-0401 DECISION NO. _____ ORDER

Open Meeting
July 1 and 2, 2008
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Tucson Electric Power Company ("TEP") is engaged in providing electric power within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.

2. On July 2, 2007, TEP filed an application for approval of its proposed Demand-Side Management ("DSM") Program Portfolio. On November 14, 2007, TEP filed a revised Portfolio Plan, modifying the delivery mechanism and the measurement/evaluation plans, for some programs.

3. The TEP DSM Portfolio consists of ten proposed programs, including the Education and Outreach ("EO") Program summarized below.

4. Program Description

Existing Programs. TEP's existing DSM portfolio includes separate residential and commercial programs designed to educate TEP customers on how to conserve energy and lower their energy bills through on-site and on-line energy audits. There is also a school program

designed to create awareness of energy and environmental issues, and to support conservation over the long run.

5. *Proposed Program*. The proposed enhanced EO program would combine, and increase spending for, the existing Residential, Academic and Commercial Education programs. It would also eliminate on-site energy audits, increase general efficiency campaigns and include a Time-of-Use ("TOU") Education component designed to educate customers about the benefits of load shifting.[1] The proposed EO program would also be used to increase awareness of TEP's other DSM programs.

6. *Goals*. The EO program includes four distinct education strategies:

7. Residential Education. The goal of residential education is to educate TEP's residential consumers on how to conserve energy and lower their electric utility bills utilizing the on-line Energy Advisor and an energy efficiency media campaign.

8. Academic Education. The goals of the academic education component are to provide school children with an early understanding and appreciation for energy efficiency, and to encourage students to take the information home.

9. The educational strategies include: (i) the Insulation Station, which provides training to 4th grade teachers and a kit containing ready-to-assemble model houses and supplies to conduct science and math activities on insulation and home energy efficiency (4th Grade); and (ii) the Energy Patrol, an Arizona Energy Office-sponsored program which involves students who monitor classrooms to ensure that lights, computers and water faucets are turned off when rooms are vacated (K-12th Grades). Depending on the willingness of teachers to schedule additional classroom time, the program may also include marketing the on-line Energy Advisor to teachers for energy efficiency and related science and math activities.

10. Commercial Education. The goal of Commercial Education is to educate TEP's small commercial customers on how to conserve energy and lower their electric utility bills through the on-line Energy Advisor and an energy efficiency media campaign.

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[1]The Company has indicated that it does not anticipate having the infrastructure in place for the Direct Load Control program until the end of 2008.

11. Time-Of-Use ("TOU") Education. The goals of TOU education are to teach TEP's residential and commercial customers about the benefits of TOU rates and to communicate strategies that enable customers to maximize savings through load shifting.

12. *Eligibility*. Eligibility varies according to program component: (i) The Residential Education component is designed for TEP's residential customers, both homeowners and apartment renters; (ii) the Academic Education component focuses on school children in TEP's service area; (iii) the Commercial Education component would target TEP's small commercial customers[2]; and (iv) the TOU Education component would be directed at TEP's commercial and residential customers.

13. *Incentives*. Incentives are not paid as a part of the EO program.

14. Delivery Strategy

The EO program would be administered in-house by TEP employees. TEP would provide program administration, marketing, planning, and consumer education activities.

15. Marketing

TEP proposes to market the EO program using the following means:

16. *Residential and Commercial*:

- **Bill messages** would be used to provide information to current customers;
- **Tep.com** would display information to help Web users quickly find energy savings information;
- **TEP customer care representatives** would be trained to answer customer questions;
- **Brochures** would be created to be mailed on demand, distributed through the call center and tep.com, and distributed at public events such as school training, presentations, and seminars;
- **Inserts** would be added to customer bills to educate them on ways to lower their electric bill costs;
- **Email newsletter** articles featuring energy savings tips would be sent to all registered tep.com users;

[2] All TEP customers are eligible to participate in the EO program, but large commercial customers usually work with TEP Account Managers or Customer Care representatives specializing in commercial energy efficiency and high bill solutions.

- **Metro traffic and other radio** advertising would be used to further communicate the value of the programs;
- **Media relations** would be prepared to answer questions posed by the media; and
- **Personal outreach** would be done at events such as fairs, exhibits and science competitions, to distribute information about energy conservation and renewable energy

17. *Academic Education*:

TEP contacts elementary and high school teachers by mail and/or telephone to schedule appearances. In addition, direct mail to all elementary schools outlines the programs offered and provides opportunities for teachers to order classroom sets of grade-appropriate energy conservation booklets and study guides for students.

18. *Time-Of-Use Education*:

TEP would notify current customers about TOU rates and provide ongoing information to both new and current TEP customers interested in signing up for TOU through avenues such as: (i) targeted mailings; (ii) bill messages; (iii) tep.com; (iv) TEP customer care representatives; (v) brochures; (vi) inserts; (vii) email newsletter; (viii) metro traffic and other radio, print and Internet; (ix) media relations; and (x) door tags.

19. It is Staff's position that ratepayer DSM dollars should not be used simply to market a specific rate. Staff has recommended that any customer communications regarding TOU should be designed to educate customers regarding the benefits of shifting peak load to off-peak hours, and of reducing peak demand (kW). Such marketing and educational communications should include information on what customers can do to manage their own energy consumption to shift peak load or reduce peak demand.

20. Participation in Existing Education and Outreach Programs

Staff has concerns regarding participation rates for the Commercial on-line energy audit, as reported in the TEP Semi-Annual DSM filing for the period ending December 31, 2007. The Company reports a total of 474 commercial customers accessing its on-line Energy Advisor, with

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111 customers completing the on-line energy audit during 2007.[3] Although completion rates are higher for the TEP commercial on-line audit, than for the UNS Electric commercial on-line audit, Staff believes that expenditures on this program component can not be justified without significant improvement in participation rates.

21. In response to inquiries from Staff, the Company stated that it has not determined the specific reason or reasons for low participation, but indicates that lack of awareness of the Energy Advisor, the time required to complete the survey, and a customer's lack of technical knowledge regarding a facility may all be contributing factors. TEP plans to increase awareness through bill messages, bill inserts, radio advertising, and participation at public events. In addition to increased advertising, the Company is investigating the possibility of using other software vendors in the future.

22. If the EO program is approved, Staff has recommended that the Company perform research and analysis in order to determine the reason or reasons for low participation. Any software issues should be addressed within one year following approval, whether this would require new software or revisions of existing software. (For example, if the length of the survey is a disincentive to using the on-line energy audit, shorter individual audits on topics such as Lighting, Heating and Cooling and Commercial Cooking could be developed.) Participation should also be tracked to determine whether the proposed increase in marketing brings about higher participation.

23. If the EO program is approved, Staff has recommended that the on-line audit component be approved only on an interim basis, and that the Company request approval to continue after one year. This filing should take place one year following implementation of an updated energy audit program, if the Company significantly revises the program, or one year following approval, if the Company chooses to keep the existing program in place, and rely on more extensive marketing to improve participation rates.

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[3] During 2007 6,560 residential customers accessed the Residential on-line Energy Advisor, with 2,734 customers completing the on-line audit. Staff believes that, while these participation numbers should be improved, the Commercial on-line Energy Advisor has shown an unsatisfactory level of participation.

24. Monitoring and Evaluation

In response to a Staff request, TEP developed a Measurement and Evaluation Plan for the Education and Outreach program. The Company is proposing to take the following steps for evaluating the different components of the EO program:

25. *Residential and Commercial Energy Efficiency Campaign*

During monitoring and verification activities for incentive-based DSM programs, TEP would ask participants whether they were made aware of the program, or influenced to participate, by the energy efficiency campaign;

26. Check boxes would be added to incentive applications to allow customers to indicate how they learned about the program in which they are participating; and

27. TEP customers would be surveyed in order to determine what actions they have taken to improve their energy efficiency.

28. *Residential and Commercial On-Line Audit Programs*

Statistics would be collected regarding visitors to the on-line audit site, including how far each customer proceeds with the audit and final recommendations page; and

29. Customers participating in the on-line audit would be contacted after three to six months to determine whether the audit was helpful and what actions the customer took to improve energy efficiency as a result.

30. *Academic Education*

Parents would be surveyed to determine whether their child's participation resulted in discussions about energy use, and about whether they were influenced to take or plan any actions to improve energy efficiency as a result of the EO program, or due to a TEP incentive-based program; and

31. TEP would collect statistics concerning school, teacher and student participation and gather comments to improve program delivery.

32. *Residential and Commercial TOU Education*

Customers would be surveyed to determine whether TOU education influenced them to change their behavior or adopt new technologies.

33. Program Budget

The proposed budget for the EO program is set out in the tables below. The overall budget for the EO program is based on the Company's estimate of the costs associated with putting together an effective year-round campaign and takes into account the historic cost of media buys. The Company has revised its proposed budget allocations to reflect a general TOU educational campaign without mandatory TOU.[4] Should TOU become mandatory, the Company has indicated that it would require additional funding.

TEP Education and Outreach Proposed Budget[5]	
Residential and Commercial Education *	$200,000
Residential and Commercial Education On-Line Audit (Software License)	$101,000
Academic Education	$70,000
Time-Of-Use Education	$100,000
Evaluation	$25,000
Total Residential & Commercial	$496,000[6]

*$75,000 is allocated to advertise the on-line audit to residential and small commercial customers.

	2008	2009**
Total Program Budget	$496,000	$496,000
Total Administrative and O&M Cost Allocation[7]	$55,000[8]	$45,000
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**The Company proposes to increase the program budget by 3% in ensuing years, to compensate for inflation

34. TEP has informed Staff that the Tucson Unified School District ("TUSD") has passed a new energy policy that makes each principal responsible for energy reductions on his or

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[7]Includes labor for individuals working on program design, research, data collection, document preparation, copying, reporting and supervision.

[8]Higher cost reflects initial start-up costs.

[9]See Marketing section.

[10]Includes labor for individuals working on actual design and development of EO materials, training programs, and hardware and materials necessary to produce materials.

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her own campus, with an expectation of a 5 percent reduction in each of the next three years. The Company anticipates that this new policy will increase interest in the Academic Education component of its EO program. In response, TEP has revised its original allocation for Academic Education upward, from $50,000 to $70,000.

35. With the additional $20,000 in funding, the Company proposes to contract with the Environmental Education Exchange to take a team into schools with high energy bills for day-long presentations on energy and conservation. After these presentations, the Energy Patrol would move ahead with continuing education and reminders on conservation. TEP states that the Environment Education Exchange is geared to work with 4th through 8th graders, and that it has on ongoing relationship with local schools, arising from its water conservation and recycling programs.

36. Staff has recommended that TEP be allowed to shift money between program components in order to address changes in participation levels.

37. Cost-Benefit Analysis and Projected kWh and Environmental Savings

The EO program consists of education and marketing intended to inform TEP customers about the benefits of energy conservation and to inform those customers on how to achieve energy savings. Because the aim of this program is to change behavior, it is difficult to objectively assess cost-effectiveness or measure actual energy or environmental savings. Staff's position is that while standard cost-effectiveness analysis may not be appropriate for market transformation or educational programs, such programs must still be evaluated to determine their effectiveness. As discussed in the Monitoring and Evaluation section, TEP has proposed to put into place evaluation measures, including surveys and the collection of participation statistics, in order to verify the program's effects.

38. Improving Customer Access to Cost Information

The three major opportunities for energy conservation involve improving equipment, enhancing the thermal envelope (with respect to buildings), and changing behavior. The OE program is intended to increase participation in the Company's other DSM programs, but is also intended to effect a broader market transformation, one that includes changes in customer

behavior. To promote that end, Staff has recommended that the Company work to improve its customers' access to more specific information regarding the costs of energy for particular end uses. A list of estimated monthly energy costs, by appliance, for TEP customers should be available on the TEP website (in addition to any cost calculator) and should be included in other program marketing, including bill stuffers.[12]

39. Staff also has recommended that information should be made available on the website, and through other marketing and education, regarding how customers can reduce "phantom loads"[13], or power consumed by electronic appliances that are switched off or in standby mode.

40. Reporting Requirements

If approved, Staff has recommended that the EO program be reported in the Company's semi-annual DSM reports. At a minimum, reporting should include the following information: (i) participation levels for each component of the EO program; (ii) the amount spent in each major budget category during the previous reporting period and, in the end-of-year report, the amount spent in each major budget category during the course of the calendar year; (iii) the results of the monitoring and evaluation process for each program component; (iv) any issues that concern the Company regarding the program, along with plans to address any problems; and (v) any major changes planned regarding the program, including termination of the program itself or a component of the program.

41. Staff has recommended that the TEP EO program be approved, with the modifications included herein.

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[12] As an example, the SRP site includes a chart, based on usage of 1,285 kWh per month, which estimates an energy cost of $19.84 for a 10-15 year old refrigerator, located outside, during summer months, while an in-house Energy Star refrigerator is estimated to cost $4.76 to run during the same period.

[13] Also referred to as "parasitic" or "vampire" loads, these loads waste energy and can amount to approximately 5% of a home's energy load.

42. Summary of Staff Recommendations

Staff has recommended that the Company perform research and analysis in order to determine the reason or reasons for low participation with respect to its commercial on-line Energy Advisor.

43. Staff has recommended that any customer communications regarding TOU should be designed to educate customers regarding the benefits of shifting peak load to off-peak hours, and of reducing peak demand (kW). Such marketing and educational communications should include information on what customers can do to manage their own energy consumption to shift peak load or reduce peak demand.

44. If the EO program is approved, Staff has recommended that the on-line audit component be approved only on an interim basis and that the Company request approval to continue one year following implementation of an updated energy audit program, if the Company significantly revises the program, or one year following approval, if the Company chooses to keep the existing program in place.

45. Staff has recommended that TEP be allowed to shift money between program components in order to address changes in participation levels.

46. Staff has recommended that the Company work to improve its customers' access to more specific information regarding the costs of energy for particular end uses, including a list of estimated monthly energy costs, by appliance, both on the TEP website and as bill stuffers.

47. Staff also has recommended that information should be made available on the website, and through other marketing and education, regarding how customers can reduce "phantom loads", or power consumed by electronic appliances that are switched off or in standby mode.

48. If approved, Staff has recommended that the EO program be reported in the Company's semi-annual DSM reports. At a minimum, reporting should include the following information: (i) participation levels for each component of the EO program; (ii) the amount spent in each major budget category during the previous reporting period and, in the end-of-year report, the amount spent in each major budget category during the course of the calendar year; (iii) the

results of the monitoring and evaluation process for each program component; (iv) any issues that concern the Company regarding the program, along with plans to address any problems; and (v) any major changes planned regarding the program, including termination of the program itself or a component of the program.

49. Staff has recommended that the TEP EO program be approved, with the modifications included herein.

CONCLUSIONS OF LAW

1. TEP is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over TEP and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated June 17, 2008, concludes that it is in the public interest to approve the TEP Education and Outreach program.

ORDER

IT IS THEREFORE ORDERED that the Tucson Electric Power Company EO program be approved, with the modifications included herein.

IT IS FURTHER ORDERED that Tucson Electric Power Company perform research and analysis in order to determine the reason or reasons for low participation with respect to its commercial on-line Energy Advisor.

IT IS FURTHER ORDERED that any customer communications regarding TOU should be designed to educate customers regarding the benefits of shifting peak load to off-peak hours, and of reducing peak demand (kW). Such marketing and educational communications should include information on what customers can do to manage their own energy consumption to shift peak load or reduce peak demand.

IT IS FURTHER ORDERED that the on-line audit component be approved only on an interim basis, and that Tucson Electric Power Company request approval to continue one year following implementation of an updated energy audit program, if the Company significantly

revises the program, or one year following approval, if the Company chooses to keep the existing program in place.

IT IS FURTHER ORDERED that Tucson Electric Power Company be allowed to shift money between program components in order to address changes in participation levels.

IT IS FURTHER ORDERED that Tucson Electric Power Company work to improve its customers' access to more specific information regarding the costs of energy for particular end uses, including a list of estimated monthly energy costs, by appliance, both on the TEP website and as bill stuffers.

IT IS FURTHER ORDERED that information be made available on the website, and through other marketing and education, regarding how customers can reduce "phantom loads", or power consumed by electronic appliances that are switched off or in standby mode.

IT IS FURTHER ORDERED that the EO program be reported in the Company's semi-annual DSM reports. At a minimum, reporting should include the following information: (i) participation levels for each component of the EO program; (ii) the amount spent in each major budget category during the previous reporting period and, in the end-of-year report, the amount spent in each major budget category during the course of the calendar year; (iii) the results of the

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monitoring and evaluation process for each program component; (iv) any issues that concern the Company regarding the program, along with plans to address any problems; and (v) any major changes planned regarding the program, including termination of the program itself or a component of the program.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____day of _____, 2008.

_____
BRIAN C. McNEIL
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

EGJ:JMK:lhm\JFW

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